

Message Text

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ACTION ARA-10

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SUBJ: GOB TAKES ADDITIONAL MEASURES TO "COOL OFF"
ECONOMY AND CONTAIN INFLATION

REF: BRASILIA 6319

1. IN THE FACE OF AN UNEXPECTED RISE IN THE MONEY
SUPPLY IN JUNE AND A CONTINUED EXCESS AGGREGATE
DEMAND SITUATION, THE NATIONAL MONETARY COUNCIL
APPROVED THE FOLLOWING ANTI-INFLATIONARY MEASURES
ON JULY 21:

A. COMPULSORY RESERVES REQUIREMENTS ON DEMAND
DEPOSITS OF COMMERCIAL BANKS WERE INCREASED (FOR THE
THIRD TIME THIS YEAR) TO 35 PERCENT FROM 33 PERCENT;
THE NEW REQUIREMENTS ARE TO BE FULFILLED BY THE
SECOND HALF OF AUGUST;

B. CREDIT TERMS FOR AUTOMOBILE PURCHASES
(BOTH NEW AND USED) WERE DECREASED TO 24 MONTHS
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FROM 36 MONTHS; A DOWN PAYMENT OF 30 PERCENT WAS

ALSO IMPOSED. PURCHASES OF CONSUMER DURABLES COSTING OVER CR 12,766.00 (WHICH INCLUDE MOST REFRIGERATORS, WASHING MACHINES AND OTHER HEAVY DURABLES) CAN HENCEFORTH ONLY BE FINANCED WITH A MAXIMUM REPAYMENTS TERM OF 18 MONTHS, WITH A DOWN PAYMENT REQUIREMENT OF 30 PERCENT. ALL OTHER CONSUMER CREDIT HAS BEEN LIMITED TO 12 MONTHS. TERMS FOR THE PURCHASES OF HEAVY EQUIPMENT, INCLUDING TRUCKS AND BUSES, WAS SET AT 36 MONTHS WITH A 20 PERCENT DOWNPAYMENT.

C) PUBLIC ENTITIES, AUTARKIES, AND MIXED (PUBLIC-PRIVATE) ENTERPRISES MUST INVEST THEIR LIQUIDITY IN ASSETS OF THE NATIONAL TREASURY, INSTEAD OF CES, DEBENTURES, BILLS OF EXCHANGE AND SECURITIES ISSUED BY STATE GOVERNMENTS. INVESTMENTS IN EXISTING ASSETS WILL NOT BE AFFECTED UNTIL MATURITY, WHEN RENEWAL WILL NOT BE POSSIBLE.

D) FINANCIAL INSTITUTIONS NOT ASSOCIATED WITH THE HOUSING FINANCE SYSTEM HAVE BEEN FORBIDDEN TO FINANCE LAND PURCHASES FOR CONSTRUCTION PURPOSES OTHER THAN FOR OWN USE. CONDITIONS SEEKING TO CONTROL THE COST OF CONSTRUCTION WERE ALSO IMPOSED ON LOANS TO BE MADE BY THE HOUSING FINANCE SYSTEM.

E) FINALLY, THE COUNCIL ADOPTED STEPS TO DISCIPLINE THE OPERATIONS OF FISCAL FUNDS (FUNDOS 157) WHICH OPERATE IN THE STOCK MARKET, USING TAXPAYERS MONEY.

2. COMMENT: THE NATIONAL MONETARY COUNCIL WAS THROWN INTO ACTION AFTER THE RESULTS FOR JUNE SHOWED THAT MONEY AND CREDIT EXPANSION AT MID-YEAR WAS RUNNING WELL AHEAD OF THE MONETARY BUDGET TARGETS. ACCORDING TO FINANCE MINISTER SIMONSEN, THE MONEY SUPPLY AT THE END OF JUNE WAS 12 PERCENT ABOVE ITS DECEMBER 1975 LIMITED OFFICIAL USE

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LEVEL, AS OPPOSED TO A PROJECTED 7 PERCENT. WHAT WAS MORE TROUBLESOME, HOWEVER, WAS THE FACT THAT THE MONEY SUPPLY (NARROWLY DEFINED) INCREASED BY ABOUT 9 PERCENT DURING THE MONTH OF JUNE ALONE. THE REPORTED REASON FOR THIS VIRTUAL EXPLOSION IN JUNE, WHICH BY THE MINISTER'S OWN ADMISSION WAS TOTALLY UNEXPECTED, WAS THE EXCESSIVE CREDIT EXPANSION OF THE BANCO DO BRASIL

OLCSE PRIVATE COMMERCIAL BANKS. DURING THE FIRST HALF, BANCO DO BRASIL CREDIT TO THE PRIVATE SECTOR INCREASED BY 29 PERCENT, AND THAT OF PRIVATE COMMERCIAL BANKS BY 24 PERCENT, AS OPPOSED TO THE MONETARY BUDGET TARGETS OF 22 PERCENT AND 14 PERCENT, RESPECTIVELY. BANCO DO BRASIL CREDITS REPORTEDLY WENT TO THE AGRICULTURAL SECTOR WHILE PRIVATE BANKS WERE FINANCING CONSUMER CREDIT. SINCE THE ECONOMY HAS BEEN GROWING AT A HEFTY PACE DURING THE LAST TWELVE MONTHS (SEE REFTEL) UNDER STRONG INFLATIONARY PRESSURES (ALTHOUGH THERE HAS BEEN SOME EASING UP IN RECENT MONTHS), THE MONETARY AUTHORITIES WERE CONCERNED THAT, UNLESS THEY ARRESTED THIS MONEY AND CREDIT EXPANSION, THE INFLATIONARY PRESSURES WHICH HAVE BEEN ESSENTIALLY OF A DEMAND-PULL NATURE WOULD SOON TURN INTO SEVERE COST-PUSH PRESSURES. IN ADDITION, AN EASY MONEY SUPPLY SITUATION POSED GRAVE DANGERS TO THE BALANCE OF PAYMENTS. THE EFFECTIVENESS OF THE 100 PERCENT PRIOR IMPORT DEPOSIT, WHICH IS ONE OF THE MORE POWERFUL INVESTMENTS CURRENTLY IN EFFECT TO CONTAIN IMPORTS, WOULD BE NULLIFIED IF IMPORTERS HAD READY ACCESS TO FINANCING.

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